



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
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September 16, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **CRYSTAL STAIRS, INC. – A DEPARTMENT OF PUBLIC SOCIAL
SERVICES CALWORKS STAGE ONE CHILD CARE SERVICES
PROGRAM PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a program and fiscal review of Crystal Stairs, Inc. (Crystal Stairs or Agency), which covered a sample of transactions from July 2011 through December 2012. The Department of Public Social Services (DPSS) contracts with Crystal Stairs, a non-profit organization, to operate the CalWORKs Stage One Child Care Services (Stage One) Program, which helps families access immediate, quality, and affordable child care as they move through their Welfare-to-Work activities.

The purpose of our review was to determine whether Crystal Stairs appropriately accounted for and spent Stage One Program funds to provide the services outlined in their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with their contract and other applicable guidelines.

DPSS paid Crystal Stairs a fixed monthly fee of \$72,417, and a negotiated monthly rate of \$160 per participant to fund Program operating costs. The contract requires the Agency to return any unspent revenue to DPSS. In addition, once a participant chooses a child care provider, Crystal Stairs develops a rate agreement, and pays the child care provider directly. DPSS reimburses Crystal Stairs for these costs at the rates specified in the contract. The rates vary based on the needs of the participant. DPSS paid Crystal Stairs approximately \$25.3 million during July 2011 through December 2012. Crystal Stairs provided services to residents of the First, Second, and Fourth Supervisorial Districts.

Results of Review

Crystal Stairs provided services to eligible participants, recorded and deposited DPSS payments timely, and Agency staff had the required qualifications. We have no findings or recommendations for the Agency. However, we noted that for Fiscal Year (FY) 2011-12, the Agency did not spend \$80,408 in Stage One Program funds received from the County. We noted Crystal Stairs' FY 2011-12 contract did not have provisions requiring the Agency to return or reinvest unspent Stage One Program funds or reimburse the County for disallowed costs. These provisions are necessary to ensure Program funds are spent for their intended purpose. Effective July 1, 2012, DPSS amended their Stage One contracts to require Agencies to return or reinvest unspent revenues.

Details of our review are attached.

Review of Report

We discussed our report with Crystal Stairs and DPSS in June 2013. Crystal Stairs' is not required to submit a response to this report, because there are no findings or recommendations.

We thank Crystal Stairs' management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:AB:DC:AA

Attachment

c: William T Fujioka, Chief Executive Officer
Sheryl L. Spiller, Director, Department of Public Social Services
Dr. Karen Hill Scott, Board Chairperson, Crystal Stairs
Jackie B. Majors, Chief Executive Officer, Crystal Stairs
Public Information Office
Audit Committee

**CRYSTAL STAIRS, INC.
CALWORKS STAGE ONE CHILD CARE SERVICES PROGRAM
CONTRACT COMPLIANCE REVIEW
JULY 2011 THROUGH DECEMBER 2012**

ELIGIBILITY

Objective

Determine whether Crystal Stairs, Inc. (Crystal Stairs or Agency) provided services to individuals who met the CalWORKs Stage One Child Care Services (Stage One) Program eligibility requirements.

Verification

We reviewed the case files for 30 (2%) of the 1,796 participants who received services during November 2012 for documentation to confirm their eligibility for Stage One Program services.

Results

Crystal Stairs had documentation to support all 30 participants' eligibility for Stage One Program services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether Crystal Stairs provided the services required by their County contract and Stage One Program guidelines, and whether the Program participants and child care providers received the billed services.

Verification

We visited Crystal Stairs service site and reviewed the case files for 30 (2%) of the 1,796 participants who received services, and 30 (2%) of the 1,453 child care providers who provided child care during November 2012.

Results

Crystal Stairs provided services in accordance with their County contract.

Recommendation

None.

STAFFING QUALIFICATIONS

Objective

Determine whether Crystal Stairs' staff had the qualifications required by their County contract.

Verification

We reviewed the personnel files for 12 (20%) of the 117 Crystal Stairs employees who worked on the Stage One Program.

Results

Crystal Stairs' staff had the qualifications required by their County contract.

Recommendation

None.

CASH/REVENUE

Objective

Determine whether Crystal Stairs recorded revenue in the Agency's financial records properly, deposited cash receipts into their bank accounts timely, and that bank account reconciliations were reviewed and approved by Agency management.

Verification

We interviewed Crystal Stairs' management, and reviewed the Agency's financial records and December 2012 bank reconciliations.

Results

Crystal Stairs recorded revenue in their financial records properly, deposited Department of Public Social Services (DPSS) payments into the Agency's bank account timely, and Agency management reviewed and approved monthly bank reconciliations.

Recommendation

None.

UNSPENT REVENUE

DPSS compensates Crystal Stairs monthly on a fixed-fee basis. Crystal Stairs received \$15,049,010 from DPSS for the Stage One Program for Fiscal Year (FY) 2011-12. However, the Agency's expenditures totaled \$14,968,602 which resulted in \$80,408 (\$15,049,010 - \$14,968,602) in unspent Program funds. We noted Crystal Stairs' FY 2011-12 contract did not have provisions requiring the Agency to return or reinvest unspent Stage One Program funds or reimburse the County for disallowed costs. These provisions are necessary to ensure Program funds are spent for their intended purpose. Effective July 1, 2012, DPSS amended their Stage One contracts to require Agencies to return or reinvest unspent revenues.

Recommendation

None.

EXPENDITURES**Objective**

Determine whether expenditures charged to the Stage One Program were allowable under the County contract, properly documented, and accurately billed.

Verification

We interviewed Crystal Stairs' personnel, and reviewed financial records for 17 non-payroll expenditures, totaling \$103,410, that the Agency charged to the Stage One Program from July 2012 through December 2012.

Results

Crystal Stairs' expenditures were allowable, properly documented, and accurately billed.

Recommendation

None.

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether Crystal Stairs' fixed assets and equipment purchased with Stage One funds were used for the Program, and were adequately safeguarded.

Verification

We interviewed Agency personnel, and reviewed the Agency's fixed assets and equipment inventory list. We also performed a physical inventory of two items purchased with Stage One funds in December 2012 to verify the items exist and were being used as required.

Results

The items purchased with Stage One funds were used for the Program, and were adequately safeguarded.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether Crystal Stairs charged payroll costs to the Stage One Program appropriately, and maintained personnel files as required.

Verification

We traced the payroll costs for 12 employees, totaling \$13,375, for November 2012 to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for 12 Crystal Stairs Stage One Program staff.

Results

Crystal Stairs appropriately charged salaries to the Stage One Program, and maintained personnel files as required.

Recommendation

None.

COST ALLOCATION PLAN**Objective**

Determine whether Crystal Stairs prepared their Cost Allocation Plan (Plan) in compliance with their County contract, and used the Plan to allocate shared costs appropriately.

Verification

We reviewed Crystal Stairs' Plan, and a sample of expenditures from July 2012 through December 2012.

Results

Crystal Stairs prepared its Plan in compliance with their County contract, and the Agency allocated their shared costs appropriately.

Recommendation

None.